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Remarks:

Not referred to DOC. Waiver
applies

Executive Secretary

SECRET**THE SECRETARY OF COMMERCE**
Washington, D.C. 20230

Rev'd 170 2 Nov

81-8614/1

MEMORANDUM FOR: Secretary of State
Secretary of Defense
Secretary of Energy
Assistant to the President for
National Security Affairs
Director of Central Intelligence

SUBJECT: Export Administration Review Board (EARB) Meeting

I will hold a meeting of the EARB in my office on Thursday, November 5 at 4:30 pm. The EARB has not met since 1976. I wish to reactivate this body to obtain your views on these export control matters due to their national security and major policy implications.

The three export control cases listed below require Board review.

FOR DECISION NOW:

- International Harvester's export license application for agricultural combine plant technology to the U.S.S.R.;

FOR DISCUSSION ONLY:

- Caterpillar Tractor Company's export license application for pipelayers for oil and gas projects in the U.S.S.R.;
- Ingersoll-Rand's inquiry (not through a license application) as to our policy on the export of gas turbine compressors for the Siberia-Western European gas pipeline.

A short paper on each of these cases is attached as background for the discussion.

Secretary of Commerce

Not referred to DOC. Waiver
applies.

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Background Paper
Export Advisory Review Board (EARB) Meeting
November 5, 1981, 4:30 pm.

International Harvester

In February 1981, International Harvester (IH) submitted an application for export license for the sale of agricultural grain combine technology to the U.S.S.R., valued at \$274 million. The technology will be delivered over five years.

As a joint effort with the U.S.S.R., IH would supply combine specifications, plant layout and equipment specifications. The Soviets would design the plant, provide the engine and power train and use their own metallurgy. IH will not supply any equipment.

The plant's production is expected to be 30,000 combines a year, or roughly 23 percent of total Soviet production. According to the Central Intelligence Agency, the Soviets harvest some 130 million hectares of grain crops, or roughly double the U.S. total of 68 million hectares (1 hectare = 2.5 acres).

At the same time, the total number of combines in use by the Soviets is only one-third greater than that in the United States. One Soviet grain combine covers approximately 185 hectares, compared to one U.S. combine which covers roughly 125 hectares.

If the Soviets hope to achieve the U.S. ratio of combines per hectare they would have to increase their inventory by more than 50 percent.

Most of the new grain combines currently produced by the Soviets are required for replacement of existing stocks, which are rapidly depleted because of relatively heavy use, poor design and production quality and improper maintenance.

In September, the technical side (USDRE) of the Department of Defense recommended approval of the sale. Defense's policy side (IETSP), however, has not.

Defense's primary concerns are that:

- o The manufacturing know-how learned from IH could be employed in Soviet Defense Priority Industries, in which the transfer of combine manufacturing know-how could be applied to making armored personnel carriers (APCs).
- o The new plant could free up other combine plants for military manufacturing, leaving a question about use of the plant.

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Technology for the combines can be purchased elsewhere should the IH license not be granted. It is rumored that the West German firm, Claas, also may be negotiating with the Soviets to provide technical assistance should the IH project collapse.

What IH will supply are the blueprints for the factory. The plant layout consists only of the "work flow" diagram with all equipment to be supplied by the Soviets. There will be no transfer of information relating to the power train, transmission and engine or of metallurgy technology. No advanced manufacturing know-how, such as industrial robots will be transferred. IH will also be prohibited from transferring any technical data specifically relating to military vehicles by terms of the license.

The Department of State gave its approval to the license on September 8 and Commerce has found no reason, from either a technical or national security basis, to disapprove the license. Defense continues to have reservations. More than eight months have elapsed since receipt of the IH application. It is an imperative that this case be decided.

Caterpillar Tractor

The President in July approved an export license for 100 large diameter pipelayers to the Soviet Union. Provisions on the license prohibited usage of these pipelayers on the Yamal natural gas pipeline from Siberia to Western Europe.

On September 21, 1981, Caterpillar submitted a license application for another 200 pipelayers, valued at up to \$90 million, for delivery in the first half of next year.

Although exact locations for the equipment's use have not been revealed by the Soviet Union, Caterpillar has been told that the equipment would not be used on the Siberian gas pipeline. The Caterpillar application simply notes that the pipelayers will be "used for laying pipe in the U.S.S.R." Caterpillar has indicated it will provide end-use assurances that the equipment will not be used on the Siberia pipeline once the Administration provides a signal that a license will be granted and acceptable assurances regarding the pipeline are negotiated.

The Commerce Department circulated the case for interagency advice and guidance on October 5. On October 7, Defense "advised against" approval of the proposed sale, as it did for the previous Caterpillar application. "These pipelayers are obviously intended to be used for a major oil and gas project," a letter by Deputy Assistant Secretary Stephen D. Bryen said.

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The Soviets won't sign a contract until Caterpillar gives assurance of a license approval. Because Caterpillar plans to close out its production of line Model 594 pipelayers by mid-1982, the company needs to make a decision soon. Otherwise, it may temporarily lay off 12,000 employees in November due to declining worldwide sales. Caterpillar must make supplier commitments in the coming weeks if they are to keep their line open and sell any additional Model 594 pipelayers.

The efficiency of technology transfer is considered low. The pipelayers are end-items produced by conventional machine shops and assembly procedures which are well known in industrialized countries. Technical data would be in the form of Service Manuals, Operations Manuals, Lubrication and Maintenance Guides and an addendum for cold weather operation to be supplied in Russian and parts books to be supplied in English. There would be no other technical data, training or technical assistance provided.

We consider that the significance of this sale to Soviet production is low. The machines would be used to build pipelines for transmitting oil or natural gas. While the potential for diversion to uses other than constructing pipelines is minimal, the machines could be diverted to the Siberian-West European gas project, even if the license is granted with conditions to discourage potential diversion.

The Japanese firm of Komatsu, LTD., is competing as an alternate supplier. Komatsu could fill the order without expanding its facilities, although the rumors are that the Japanese would not have filled the order if the United States had not approved the first 100 pipelayers.

Ingersoll Rand

Ingersoll-Rand has asked if they could compete for the gas turbine compressor units for the West Siberia Pipeline. Although these items are so called G-DEST (exported freely to most destinations, including the USSR), we have told them that one of the options before the President is to stop any sales targeted for the Pipeline. Ingersoll-Rand has not competed for the sale, although there is good evidence to suggest that the French, Japanese and Italians have at least signed letters of intent to sell similar equipment. Ingersoll-Rand, and probably other U.S. firms, would like to compete but are hesitant to go ahead without a signal from the Administration.

Deriv. Classified by Lawrence J. Brady
AS/TA

Source(s)

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Review on 7 October 2001

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